

2015

Central Okanagan Small Scale Food Processing Study



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Final Project Summary

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1.0 Project Overview Description – (see Appendix 1.0 Milestones, Outcomes and Deliverables).

This project was designed to support the growing need and interest in small scale food production and purchasing with regard to value added agriculture opportunities. For example, Farmers Markets are an effective venue for local food producers to sell their products, however with a good supply of locally produced products and limited avenues to utilize unsold food before it spoils, small scale production facilities are required to process these foods properly. By identifying, assessing and preparing these businesses for small scale food processing and helping to scale the businesses as the market for their products grow, this project will help determine what is needed to support and grow value added agriculture opportunities. The assessment of the following was completed in this project:

1. Evaluations of the potential business opportunities for small scale food producers in the Central Okanagan;
2. Determination of facility use, needs and resources;
3. Asset mapping of suitable commercial kitchens available for rent or lease to small scale food producers;
4. Needs assessment for training in value added food production and business operations;
5. Identify and provide advocacy of programs that would assist small scale food processors to commercialize and grow their business opportunities.

2.0 Project Team

Larry Widmer, CMC – Larry is an experienced business development consultant, manager, investor, lender and advisor. He is a Certified Management Consultant and has 27 years of successful business development, business planning, strategic planning, business start-up and marketing communications experience. Larry provides general management for the CFDDCO to help manage the \$3M loan fund, deliver the Self Employment Program, the Youth Mean Business Program and strategic community economic development initiatives. He is currently the Chairperson for the Central Okanagan Economic Development Commission and a Member of Certified Management Consultants Association of Canada.

Judy Lloyd, FCMA, FCPA – Judy is a Fellow of Management Accounting who owns and operates JA Lloyd Management Services that has provided solid entrepreneurial assessment, business plan development instruction and business counseling to the CFDDCO for over 20 years. Judy has her B.Sc. in home economics and worked as a home economist and consultant for Alberta Agriculture for 10 years. Judy then received her CMA designation and built an agriculture based practice that she operated for another 10 years.

Donnie Ungaro, BAdmin, Chef – Donnie joined the team to assist Judy Lloyd with market research and development. He possesses a Bachelor of Administration degree from Okanagan College and is Red Seal Chef. As an entrepreneur, Donnie has recently launched a bicycle powered mobile food vending business that he is positioning for implementation and growth throughout North America. Donnie worked for the Economic Development Commission as a contractor for 3 years and was recognized nationally for his work on the Okanagan Young Professionals collective. He recently was awarded the Executive Director contract to help develop and implement the \$26M Kelowna Innovation Centre that will be completed late in 2016.

Debra Hellbach, BSc - Food Industry Consultant, Food Industry Advocate. Debra is passionate about supporting domestic food production and healthy eating initiatives. Her strength lies in developing relevant programs that engage the food processing industry. With 30+ years experience in all facets of the Agri-Food industry Debra's goal is to help grow local food production by providing relevant resources and services to food and natural health product processors. She also actively promotes the importance of healthy eating and buying local. Through her company Grounded Strategies, Debra develops and implements food industry development projects that provide solutions towards business development and societal concerns like dietary related disease, economic development, employment, food safety and food security.

Debra is currently working with the BC Ministry of Agriculture organizing and delivering domestic and international marketing events and with the BC Food Processors Association on the Path to Commercialization Program (www.pathtocommercialization) helping entrepreneurs through the challenges of commercializing new products. She also continues to work on the Produce Preservation Program - providing workshops and ongoing resources to teach people how safely preserve foods towards improving health and food security.
www.preserveproduce.ca

Mary Ellen Hodgins, PhD- Mary Ellen has over twenty-five years of consulting experience focusing on the agriculture, food and natural health products' industry. She serves her clients in areas of competitive intelligence, marketing plans, facilitation and training. Mary Ellen has been a principal trainer and coach in many programs including: Wellness West's commercialization roadmap training, Training for functional food and supplement sector in Ireland, "Train the Trainer" program in Bulgaria aimed at marketing products in the European Union, Women's Entrepreneurial Development Training Program in Malaysia, the Entrepreneurial Development Institute in Malaysia and the Universiti Utara Malaysia; Strategic Planning Program in Kyrgyzstan.

In addition, Mary Ellen successfully completed her PhD in food policy focusing on innovation in the functional food and natural health products' sector. Mary Ellen is part of the core team that developed and delivers the BC Food Processors Association's Path to Commercialization Program and also works with the BC Ministry of Agriculture providing domestic and international marketing training and resources.

3.0 Background - Project Intent

Small scale food production is noteworthy in the Okanagan. This study identified over 175 companies and organizations involved in small scale food production in the greater Okanagan region (*see Appendix 2.0 IHA Food Licenses List*) for a full list of companies/organizations. These included food, beverage and natural health product manufacturers, some craft alcoholic beverage manufacturers and service providers.

For the purposes of this study, 53 companies were targeted in the Central Okanagan (*See Appendix 3.0 List of Food Processors*). These companies are considered small or emerging as well as making and distributing packaged food. The main outcome desired from the project is to capture a snapshot of the small scale value added food processing resources in the local community. The information will be used to set up a platform on which to build future information and resources and to develop infrastructure. As well, the community-based platform would provide a resource that would enable food processors in the community to match needs and resources.

4.0 Research and information gathering

The project was set up in three research phases:

1. Gather information
 - identify target companies in local area (*appendixes 2.0 and 3.0*)
2. Conduct Market Assessment through surveys and interviews
 - develop and distribute survey to determine local needs (*appendix 4.0 Okanagan Processors Survey*)
 - conduct interviews of target businesses to identify success factors and barriers
3. Identify potential resources (*appendix 6.0 Resources*)
 - identify commercial kitchens for rent or lease (*appendix 5.0 Map of Assets Survey*)
 - identify co-packers (*appendix 7.0 Co-packers and Commercial Kitchens*)

The Market Assessment On-line Survey was sent out August 17, 2015 to 53 businesses which had e-mail contact information listed. 8 were bounced back, 45 reached a destination, 25 were opened, 11 surveys were responded to of which 8 completed all sections.

Overall observations from the survey data:

- 88% operated from their own facility
- 75% indicated desire to grow and the other 25% indicated they had developed plans to capture opportunities.
- Only 3 indicated excess capacity: 1 wanted to co-pack, 1 may be interested, 1 was not interested.
- 50% produced more than 10 products
- 75% indicated low hazard production
- 63% indicated that they sell through local independents. Most respondents sold through several of the platforms.
- 75% had some form of documented planning, only 2 had business plans.
- 6 of the respondents requested further information.
- Highest ranked challenges: Bureaucracy, Financing, Access to equipment, On-line marketing
- Lowest ranked challenges: Mentoring, Training programs, Business planning

The respondents represented the whole range in age of business (new to 10+ years) and number of employees (family only to 10+ employees). 38% indicated sales of \$15,000-\$30,000; the rest ranged evenly across the ranges from \$50,000 to \$1-\$5 million. 63% were incorporated. 88% of the respondents indicated having post-secondary (college or university) education.

The Market Assessment In-depth Interviews were organized and conducted from late August through September. 9 businesses were selected from the list for in-depth interview. One refused; 7 were interviewed in person and 1 interview was completed by telephone call. The interview times ranged from 30 minutes to 2 hours of face time plus telephone calls.

Interviewees were asked to share some history of their business development; to share their successes and challenges and to offer their recommendations for additional resources that would help them and/or would help new entrants into the industry.

Through the discussions, some common issues and challenges surfaced:

- 100% indicated that hard work, persistence and passion are needed to stay in the food processing arena
- 63% cited a need for better access to financing
- 63% cited a need for collaboration and co-operation among similar businesses
- 38% indicated that cost of production is unduly high due to freight and shipping costs
- 38% indicated difficulty finding and keeping workers
- 38% were concerned with inability to use resources efficiently due to seasonality of business
- 25% indicated difficulty in working through bureaucracy
- 13% cited the need for planning tools

Additional market assessment information was gathered through personal contact. 24 personal or telephone discussions were conducted with farmer's market vendors and with other parties involved in the food processing industry.

Many common threads were identified through this process. A lot of new businesses are entering the marketplace; many are in early stages of development and start marketing their product through farmer's markets. Business owners soon discover that they have to be very creative and persistent to get through the maze of requirements for business start-up, from the protocols for licensing to getting into the farmer's market. Many find unique solutions.

The most common complaint is the paperwork required and difficulty in securing compliance. One business indicated the 4 month delay in getting paperwork done that took most of the summer selling season. Another indicated 5 months to complete what seemed to be a simple paperwork step. A third business was closed after two years when the health inspector indicated issues with the facility she was using; she has not been able to find an affordable alternative location.

Finding production facilities was also listed as a common issue. Many of the small businesses built their own facilities because they could find no other alternative; now they are limited by the production resources they have. One business indicated she just keeps working the telephone and uses different facilities each time, which is very frustrating and not efficient.

Potential resources were examined to start the process of mapping available facilities and production resources. The focus was two-fold. First, local commercial kitchens in the central Okanagan were polled for capacity to rent or to co-pack, mainly for smaller scale and emerging businesses. Secondly, an inventory of larger co-packing facilities in other areas of British Columbia was compiled as a potential resource for established companies in the Okanagan seeking to grow their production.

The local compilation was started using the health authority database of commercial kitchens in the Central Okanagan. The initial list of 1,600+ kitchens was vetted down to 750+ which might have potential for community use. These were researched through their websites, vetting out those that did not appear to be suitable due to size, description or uses. This list comprised 150 potential kitchens/production facilities that seemed viable and large enough to have excess capacity. E-mail addresses were collected for these.

Personal e-mails were sent out on November 10 to 150 facilities. 139 of these got through. 51% were opened and 28% clicked the link to the questionnaire. Only 1 business completed the questionnaire. Follow-up telephone calls were made to the 65 who had opened the e-mail and respondents who were reached were added or weeded out. 3 were added to the database following the telephone calls.

A follow-up e-mail was sent to 98 businesses on November 24 which yielded several e-mails and 4 additional responses. 60+ follow-up phone calls to those who should have responded yielded 5 more resources.

The process of finding commercial kitchens proved frustrating. Many of the listed kitchens, particularly community halls and churches, were called several times, leaving messages for someone to call back, which most did not do.

Of the calls that did get through, many businesses indicated they did not respond due to pressure of workload. Surprisingly, many community facilities (church, government, hall and community service facilities) are not interested in sharing space, citing the rental of their kitchens as a nuisance. Of those who do rent out kitchen facilities, almost all cited first come service, no repeat or long term bookings, all bookings subject to services and events for their own members.

Some of these reluctant facilities are currently being used by some of the businesses interviewed but the bookings are relationship-based.

The tally of resources identified is 13 production facilities – 8 available for rental; 3 for co-packing only and 2 without excess capacity.

5.0 Research Conclusions:

Although there are numerous potential kitchens in the area, finding one is a very difficult process that might reward the persistent or the lucky. It is very difficult to contact people, one must often call several times and be prepared to find most facilities are not available. This is consistent with the message given by several of the interviewees. Finding production facilities is a major barrier for a value added food production business.

In general, facility managers do not want to rent out facilities as it means cleaning, extra work, monitoring, and the return may not be enough to make the effort worthwhile. Most facilities that are available do not allow commercial operations to take priority, do not allow recurring bookings, and give community events first right. Several facilities have restrictions – gluten free, vegetarian, nut free.

Facilities that have excess capacity indicated it was difficult to let people know what is available saying it is a nuisance to answer a lot of useless calls, give the same information over and over, and educate the users.

Both facility managers and users indicate there are hidden one-off resources if you know the right person.

Co-packers have to make money. Facility owners indicate they feel the buying public are unrealistic about how much they should pay and sometimes it is not worth the time it takes to educate potential users.

With 1600 kitchens in the Central Okanagan, it is astounding how few are available and how difficult it is to connect the available facilities to the searching users.

6.0 Results Analysis

Profile – From the interviews, surveys and discussions, it was determined that there is a wide range in the types of individuals who operate small scale food processing businesses. Owners cover a wide age range, from 20's-70's. Many of the new entrants to the industry are in their 30's, but there are older entrants as well. 32 of the 39 businesses touched in the study operated from their own facilities.

A typical emerging processor would start on a small scale from home. Initially the business is product-driven, built from a hobby (or, sometimes excess product). Initial sales are made at existing farmer's markets and small craft shows. Owners are often bewildered by the many challenges they encounter: paperwork, finding facilities, competing for space at markets and shows. As they start, these emerging businesses are happy to have a few sales, expanding as they try different sales techniques and try to find repeat business. Many of them quickly realize they need to build or expand their production facilities.

Typically established businesses have weathered humps and challenges by persistence, hard work, and veering to a market-driven focus. Growth is an elusive goal as they find each jump in production brings new challenges in expanding facilities and work force until they reach the point where labor and/or capacity are limiting their forward momentum. This often coincides with moving to retail sales. Delivery and freight are major costs and have led to more than one business moving to larger centers for production.

This sector is about relationships, including with retail stores. The best knowledge comes from others in industry. Collaboration and relationships have been cited as instrumental in success. Many of the long-term established businesses have cycled from home-based facilities to rental or co-pack facilities and back to owned facilities to accommodate jumps in production. From the interviews, all of the established businesses were in their 2nd + business iteration.

Issues identified - Challenges, barriers, critical success factors :

- licensing and permits, bureaucracy,
- HR and staffing, finding qualified labor, foreign worker program which impacts labor even if they don't use them
- capital, financing, best use of own capital, seasonal cash flow,
- Facilities, growth, use of space, co-packing and how to benefit from it
- marketing, navigating grocery store requirements,
- shipping, freight

Marketing is key, hard work and passion for the product keeps you going.

Time is a major pressure.

Recommendations coming from interviewees and common issues:

- Set up a freight/shipping sharing mechanism.
- May be product driven but marketing is key to continuing success. Have to understand marketing.
- Relationships are key. Provide a platform to encourage interaction/collaboration, info/resource sharing site
- Checklists/portal to share knowledge and help new entrants navigate the maze
- Financing structured for this sector. May be long start-up to profitability.
- Best practices for attacking various issues: Financing, bureaucracy management, developing talent, foreign workers
- Guide for co-packers
- One location for information with links from other agencies. Look for existing platforms, not re-invent the wheel. Designate someone responsible to keep information up-to-date.
- Special needs for start-up. Consider a start-up package with industry-specific checklists.

7.0 General Resources for Small and Medium-Sized Enterprises in the Food, Beverage, Natural Health Products and Seafood Sectors *(see appendix 6.0 Resources)*

The following table provides an overview of resources available to companies in BC's food, beverage, natural health product and seafood sectors. It identifies:

- Associations and organizations;
- Services offered by Agriculture and Agri-Food Canada and BC's Ministry of Agriculture;
- Regulatory agencies;
- Sources of funding and assistance;
- Organizations offering product development services;
- Packaging companies;
- General resources;
- Electronic newsletters and magazines that provide market information;
- Food Industry Consultants

Please note that web links and organizations change over time. The list should be considered a living document and therefore updated on an on-going basis.

8.0 Programs

This project has identified the common and individual needs of small scale food producers in the target region. Access to financing, equipment, understanding regulatory requirements and accessing industry expertise are common requirements. Each company also has individual needs that can be addressed through a tailored approach. These needs mirror those of small scale food processors in other jurisdictions.

A program that has worked well for small scale processors throughout the province may be a model to consider. Developed for the BC Food Processors Association, the Path to Commercialization (PtC) program targeted up and coming food and natural health product manufacturers needing assistance with business planning, human resources, operations, regulatory processes and/or sales and marketing. Key to the success of the program was tailoring assistance to companies' needs and on site coaching. Activities included group educational and networking events, one-on-one, on-site business coaching and/or mentoring by seasoned professionals over a period of 6 months. On-going support after the completion of the formal program is provided to all graduates.

There are several funding assistance programs available to BC food and natural health product manufacturers. Currently, most focus on innovation, marketing and export development. Funding programs are included in the list of resources in Appendix 6.0 Resources.

Community Futures Central Okanagan has a strong track record in supporting small scale food processors with counseling and training support but also providing valuable collaborative financing suited to this type of business development. Many small scale food processing clients of Community Futures have found success and are now strong advocates for the organization providing valuable industry knowledge, client referrals, organization leadership and mentorship. These relationships, knowledge and advocacy are critical success factors for the organization and the clients it serves.

Commercial Kitchens offer new entrants with the opportunity to process their products in a facility that meets health code requirements without needing the capital to invest in building new or renovate existing facilities to meet food facility regulatory requirements. The growth in small food processing businesses throughout the province is spurring the development of new shared use commercial kitchens. A number of facilities from other jurisdictions are identified as possible models:

Hawkers Accelerator Co-working Kitchen	www.hawkerswharf.com
Commissary Connect	www.commissaryconnect.com
Harkness & Co. Butchers	www.vancouverbutcher.com/index.php/commissary-kitchen
Victoria Public Market	http://victoriapublicmarket.com/community-kitchen/

There are pros and cons to the use of shared use commercial kitchen. While offering a good alternative to costly construction or renovations availability and fit are often a challenge. Few facilities were identified in the target region. If a facility is available, timing, cost and equipment are other considerations.

9.0 Co-Packers

A co-packer or contract packer is a company that manufactures and packages food, beverages, natural health products or seafood on behalf of its clients. Processors, particularly newer processors, often look to co-packers to undertake manufacturing of their products to:

- Reduce costs;
- Access knowledge of an experienced manufacturer;
- Meet increasingly stringent retailer demands for food safety and traceability programs; and/or
- Meet larger orders as sales increase.

The utilization of a co-packer therefore allows the processor to focus efforts on marketing of their products.

BC's lower mainland represents the largest market for food, beverages, natural health products and seafood in the province. As a result, many processors from other regions choose a co-packer in that area. (*see Appendix 7.0 Co-packers and commercial kitchens*) that provides a list of co-packers primarily in the lower mainland.

Potential users of a co-packer should be aware that co-packers offer expertise and services in specific areas. For example, one may focus on nutrition bars, another on beverages, yet another on baked goods, etc. It is important therefore to know what to look for in a co-packer as well as the questions to pose to potential co-packers. When considering a co-packer, processors should take into consideration several factors including, but not limited to:

- A clear understanding of the processing needs;
- A short list of potential co-packers;
- Capacity and capability of the co-packers (including type of equipment and expertise);
- Certifications and regulatory compliance;
- Liability issues and insurance;
- Costing of products;
- Confidentiality requirements; and
- Payment terms.

In addition, the processor should have confidence that the co-packer can indeed deliver what was promised. A good source of information is to ask for references – other processors who have used or are using the services of the co-packer and ask them about their experience.

The following links provide good overviews for the processor when determining the best fit with a co-packer:

- <http://www.omafra.gov.on.ca/english/food/industry/bdb-start/threestep-copacker.html>
- [http://www1.agric.gov.ab.ca/\\$Department/deptdocs.nsf/all/explore13593/\\$FILE/DistributionFactsheet5TipsWhenConsideringACo-Packer.pdf](http://www1.agric.gov.ab.ca/$Department/deptdocs.nsf/all/explore13593/$FILE/DistributionFactsheet5TipsWhenConsideringACo-Packer.pdf)
- <http://ucfoodsafety.ucdavis.edu/files/26426.pdf>
- <http://foodbeverage.about.com/od/GettingIntoProduction/a/10-Questions-To-Ask-A-Food-Copacker.htm>
- <http://extension.psu.edu/food/entrepreneurs/co-packers/an-insider2019s-guide-to-co-manufacturing>

10.0 Ongoing Support - *Where do we go from here?*

Small scale food production and the desire for high quality, safe and local products is growing in the Okanagan and around the world. Food processing is increasingly becoming the number one manufacturing sector and employer in many jurisdictions. Fostering growth of this industry in the Okanagan will also support and grow value added agriculture opportunities.

In order to prepare these businesses as the market for their products grow, they will require access to resources as well as ongoing support. This project has identified needs and many resources that are currently available. Local service providers can provide path finding services on an ongoing basis to industry specific resources, many of which are listed in Appendix 6.0 Resources. Programs such as the Path to Commercialization, industry specific organizations like the Small Scale Food Processors Association, the BC Food Processors Association, BC Association of Farmers Markets and government departments focus on the agriculture and food industries and are all great sources of ongoing support. Food entrepreneurs should be encouraged to join food industry organizations and/or subscribe to industry related calendars of events and newsletters.

Guiding Principles

This study provides a good foundation for understanding the local marketplace for small scale food processing and where the real needs exist in supporting the sector to develop. Community Futures will advocate the following formula for success in upcoming months:

- **Collaboration** – encourage collaboration amongst agencies and businesses through sharing of resources, advocating opportunities, by referral and provision of programs and services and by providing valuable organization and business development support.
- Deliver **Client centered** programs and services – be mindful of the challenges, the trials and tribulations of the client and the importance of supporting and developing this sector. We will all need to strive to provide the best information and support with our individual organization's programs and services but also be aware and supportive of other agencies and programs that are equally useful.
- Provide valuable **financing and funding** resources suited and structured to the type of business that is being developed and find ways to complement, share and leverage the resources to the best of our abilities.
- Foster **patience and persistence** and provide careful planning support that is long term oriented and also recognize the short term challenges that many of the businesses will face in building a sustainable business.
- Surround ourselves with **passionate** people that understand the importance of sustainable food production and processing. Encourage and support these people and organizations as much as possible to help change the mindset of the community.
- **Promote** where possible, the practical, prudent and sustainable businesses and organizations that make up this sector.